

**DECISION**

**THE COMPTROLLER GENERAL  
OF THE UNITED STATES**  
WASHINGTON, D. C. 20548

24949

**FILE:** B-208795.2; B-209311 **DATE:** April 22, 1983

**MATTER OF:** Crown Laundry and Dry Cleaners, Inc.

**DIGEST:**

The apparent low bid on a contract for a 1-year base period and 2 option years is materially unbalanced where there is reasonable doubt that acceptance of the bid--which has a substantially front-loaded base period price and does not become low until well into the last option year--will result in the lowest ultimate cost to the Government.

Crown Laundry and Dry Cleaners, Inc. protests the rejection by the Department of the Air Force of bids it submitted in response to invitations for bids Nos. F04609-82-B-0070 and F22608-82-B-0023. The invitations are for the rental and maintenance of laundry washers and dryers for a base period of 1 year and 2 option years at George Air Force Base, California and Columbus Air Force Base, Mississippi, respectively. The Air Force rejected both bids as unbalanced because Crown's base year prices far exceeded the option year prices for essentially the same services. Crown contends that the rejection was improper in that its bid prices for the base and option years, though ostensibly unbalanced, reflect its actual costs during those periods and, in any event, Crown's bids would provide the lowest cost to the Government over the entire contract period. We deny the protest.

George AFB

Solicitation No. F04609-82-B-0070 is for the rental of 71 washers and 64 dryers for dormitories at George AFB for a base year and two 1-year option periods. The solicitation specifies that award will be made to the bidder offering the lowest total price for the 3-year period and admonishes that materially unbalanced bids may be rejected as nonresponsive.

The Air Force received the following bid prices (rounded to the nearest dollar) in response to the solicitation:

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	<u>Base Year</u>	<u>Option Year 1</u>	<u>Option Year 2</u>	<u>Total</u>
Tri-County Appliances	\$37,666	\$37,666	\$37,666	\$112,998
Diffco (1% discount)	42,887	32,195	32,195	107,277
Crown (20% discount)	81,440	14,556	14,556	110,552
JLS Servco (2% discount)	35,472	35,472	35,472	106,416

The application of prompt payment discounts, which under the terms of the solicitation are to be considered in evaluating bids, had the following results:

	<u>Base Year</u>	<u>Option Year 1</u>	<u>Option Year 2</u>	<u>Total</u>
Tri-County Appliances	\$37,666	\$37,666	\$37,666	\$112,998
Diffco	42,458	31,873	31,873	106,204
Crown	65,152	11,645	11,645	88,442
JLS Servco	34,763	34,762	34,762	104,287

The contracting officer determined that Crown's apparently low bid was mathematically unbalanced based on the large differential between the base and option prices. The contracting officer also found the bid to be materially unbalanced, observing that Crown's price would not become low until well after the second option was exercised and that, therefore, a reasonable doubt existed that Crown's bid would ultimately be the most advantageous to the Government. On this basis, the Air Force rejected Crown's bid as nonresponsive.

Columbus AFB

Solicitation No. F22608-82-B-0023 is for the rental of 58 washers and 58 dryers at Columbus AFB. This solicitation also states that bids will be evaluated on the basis of total price for the 3-year period and warns that materially unbalanced bids may be rejected as nonresponsive.

The Air Force received the following bids in response to the solicitation:

	<u>Base Year</u>	<u>Option Year 1</u>	<u>Option Year 2</u>	<u>Total</u>
Ebony, Inc.	\$29,580	\$29,580	\$29,580	\$88,740
Crown (20% prompt payment discount)	65,672	16,110	16,110	97,892
Laundramatics (1% prompt payment discount)	33,408	25,056	20,880	79,344
Donqieux	31,320	31,320	31,320	93,960

As a result of prompt payment discounts, which the solicitation stated were to be evaluated, Crown's bid was low by \$236:

	<u>Base Year</u>	<u>Option Year 1</u>	<u>Option Year 2</u>	<u>Total</u>
Ebony, Inc.	\$29,580	\$29,580	\$29,580	\$88,740
Crown	52,538	12,888	12,888	78,314
Laundramatics	33,074	24,805	20,671	78,550
Donqieux	31,320	31,320	31,320	93,960

The Air Force found Crown's front-loaded bid to be mathematically unbalanced and, on the basis that Crown's bid would not be low until the last month of the second option period, determined the bid to be materially unbalanced. The Air Force rejected Crown's bid and awarded the contract to Laundramatics.

#### Mathematical Unbalance

Our Office has recognized that unbalanced bidding entails two aspects. The first is a mathematical evaluation of the bid to determine whether each bid item carries its share of the cost of the work plus profit, or whether the bid is based on nominal prices for some work and enhanced prices for other work. The second aspect--material unbalancing--involves an assessment of the cost impact of a mathematically unbalanced bid. A bid is materially unbalanced if there is a reasonable doubt that award to the bidder submitting the mathematically unbalanced bid will result in the lowest ultimate cost to the Government. Consequently, a materially unbalanced bid may not be accepted. Reliable Trash Service, B-194760, August 9, 1979, 79-2 CPD 107.

Crown asserts that its bid, although front-loaded, is not mathematically unbalanced. Crown points out that the George AFB solicitation requires that the washers and dryers not be more than 2 years old at the start of the contract or at the start of either option period and that the Columbus AFB solicitation requires new machines at the start of contract period. Thus, the solicitations require the contractor to purchase new machines to perform the requirement. Crown claims it formulated its bid by amortizing the cost of new machines (including finance charges) over the first year of the contract. Moreover, Crown points out that installation and start-up costs are incurred in the first year. Crown has submitted an itemization of its projected costs and profits which, in Crown's view, demonstrates that its bid prices are reflective of its costs for each contract period.

We find, however, that the Air Force findings of mathematical unbalancing were correct.

Crown's George AFB price for the base period is 459 percent higher than its option year prices. Additionally, Crown's base price is 70 percent higher than the average price submitted by the other bidders and Crown's option price is less than 30 percent of the average option price submitted by other bidders. Similarly, Crown's Columbus bid for the base year is 308 percent higher than its option year price. Its base year price is 68 percent higher than the average base year price submitted by the other bidders and Crown's option year price is less than half of the average price for option year 1 submitted by the other bidders.

Thus, Crown's bids are extremely front-loaded and this structure is out of line with the pricing structure of the other bids submitted. Importantly, the scope and nature of the services is essentially the same for the base period and the option periods: rental and maintenance of washer and dryers. Although we have found that bids with base/option period price differentials of as much as 30 to 50 percent are not mathematically unbalanced, see Propserv Incorporated, B-192154, February 28, 1979, 79-1 CPD 138, where the differentials have approached the magnitude of Crown's differentials, we have uniformly found the bid to be mathematically unbalanced. See Reliable Trash Service, supra, (option year 1 price 90 percent greater than option year 2 or 3); Solon Automated Services, Inc., B-206449.2, December 20, 1982, 82-2 CPD 548 (base year price more than 350 percent higher than option year prices). We believe a finding of mathematical unbalance is warranted here.

Although Crown has offered business reasons for its price structure, we have consistently declined to look behind a bid to ascertain the business judgments that went into its preparation. See K.P. Food Services, Inc., 60 Comp. Gen. 1 (1982), 82-1 CPD 289; S. F. & G., Inc., dba Mercury, B-192903, November 24, 1978, 78-2 CPD 361. Rather, we believe it is proper to determine whether unbalancing exists by focusing on the pricing structure and the services to be rendered. Moreover, although business reasons for front-loading bids to such an extreme may well exist, we cannot ignore the fact that a bid such as Crown's enables the bidder to use during a base contract period Government funds more properly allocable to option periods and creates the prospect of a windfall if all options for

some reason are not exercised. Safemasters Company, Inc., 58 Comp. Gen. 225 (1979), 79-1 CPD 38. In this regard, we observe that the business reasons Crown offers for its bid, recoupment of all equipment costs in the first year even though it will own and use the equipment in subsequent years, assumes that it is proper to obtain Government funds in the base year even though the funds are more properly allocable to the option years.

#### Material Unbalance

As noted, a bid is materially unbalanced if there is a reasonable doubt that award to the bidder submitting a mathematically unbalanced bid will result in the lowest ultimate cost to the Government. The determination of whether reasonable doubt exists is a factual one which varies depending upon the particular circumstances of each procurement. Solon Automated Services, Inc., *supra*.

The Air Force determined that there was a reasonable doubt that it would realize the \$15,845 price advantage represented by Crown's bid at George and the \$236 advantage at Columbus. The Air Force points out that Crown's bid on the George requirement would not become low until the fourth month of the second option period. Crown's bid on the Columbus procurement would not become low until the last month of the second option period, the final month of the contract. Thus, if Crown were awarded either contract, the Government would assume a risk that if both options are not exercised, or if the contract is terminated, it will have paid Crown an inflated amount for the service. Relying on our decision Lear Siegler, Inc., B-205594.2, June 29, 1982, 82-1 CPD 632, the Air Force rejected Crown's bids as nonresponsive.

Crown argues that its bid will result in the lowest cost to the Government, because the Government reasonably expects that the requirement will exist and funds will be available during the option periods. Crown cites in support of its contention Jimmy's Appliance, B-205611, June 7, 1982, 82-1 CPD 542, in which we found that a similarly front-loaded bid was not materially unbalanced.

We find the bids to be materially unbalanced. In Jimmy's Appliance, the unbalanced bid was substantially lower than the next low bid (64,975.70 vs 115,708.30) and the Government would realize the price advantage during the first of 2 option years. In this case, Crown's advantage is not substantial in either procurement and, importantly, it is not until well into the second option period that either of Crown's bids become low. Therefore, Jimmy's Appliance is not controlling.

In any event, in Jimmy's Appliance and previous cases involving front-loaded bids, the material unbalancing analysis was limited to determining whether the Government reasonably expected to exercise the options. If the exercise was reasonably anticipated, we concluded that the bid was not materially unbalanced. In Lear Siegler, *supra*, we modified the material unbalance test somewhat. We held that even though the Army expected to exercise the options, since the bid in question was extremely unbalanced and would not become low until the 39th month of a possible 42-month contract, there was a reasonable doubt whether the unbalanced bid would ultimately provide the lowest cost to the Government. We recognized that despite the intent to exercise the options, intervening events could cause the contract not to run its full term (for example, troop levels at the installation could sufficiently decrease to make the exercise of the option unnecessary or uneconomical), resulting in an inordinately high cost to the Government and a windfall to the bidder.

Turning to the facts in this case, we find that both of Crown's bids are materially unbalanced and were properly rejected. The Columbus bid requires the Government to pay 67 percent of the total 3-year price in the first year and does not become low (and then only by \$236) until the 36th month. Crown's bid at George AFB requires the Government to pay 74 percent of the total contract costs in the first year. The bid does not become low until the 28th month of the 36-month contract. We agree with the contracting officers that there is a reasonable doubt that Crown's bid would actually provide the lowest cost.

We additionally point out that Crown is the low bidder at both installations only by virtue of substantial (20 percent) prompt payment discounts. Although the evaluation of discounts by the Air Force was proper under the solicitation and then-current regulations, the discounts add to our concern that Crown's bids may not present the lowest cost, since the Air Force would have to take advantage of the discount nearly every month of both contract periods to realize the savings represented by Crown's bid. See Solon Automated Services, Inc., supra.

The protest is denied.

*for* *Harry R. Van Cline*  
Comptroller General  
of the United States